



Lesson 3:

Practice What You Have Learned

Lesson 3: Practice!

Wondering, why bother?

Financial statements can help your organization make good decisions and decrease money worries related to:

- Organizational health
- Saving and Spending
- Cash Flow
- Rainy Days

Organizational Health

Looking at how the organization is actually doing with income and expenses, compared to its projected budget, can tell you about the organization's fiscal health.

Saving and Spending

Board members and staff often have conflict over balancing the need to conserve (for example, to save for a rainy day) with the need to spend (for example, in order to meet ever-increasing needs of the community).

This requires thoughtful budgeting and an understanding of how much financial cushion the organization has, in case funding decreases or new expenses are higher than planned.

Knowing the organization's net assets, and the cost of keeping the doors open, helps your team understand how much the organization can afford to spend, how much risk it can take to start new projects, and how much to save up.

Cash Flow

Cash flow can be a big problem for nonprofits that rely on government funders, and that includes most domestic violence and sexual assault survivor service organizations.

This is because most government funders pay *after* the organization performs the services, not before. An organization must have enough cold, hard cash on hand to pay employees and other costs of providing services, *before* it gets that money *reimbursed* from the funder.

A simple way to keep track is to figure out how much the organization needs each month (the expense total divided by 12 months), and then compare that to the cash total under Assets on the balance sheet. (Many organizations create cash flow projections to guard against running out of cash.)

Rainy Days

A good sign of financial health is having enough money to last a few months, in case funding drops or ends. (Many funders ask about this before they will make a grant.)

Board members, managers and other leaders will keep an eye on net assets for this reason.

A simple way to calculate this is similar to the approach outlined in the previous slide. Take the cost of running the organization each month (the expense total divided by 12 months), and then compare that to Net Assets on the balance sheet.

Conclusion

Understanding how money flows in and out of a nonprofit helps us be good stewards of time, money and people resources.

Most nonprofits are filled with people who believe they have no business getting involved in the business end of things. However, it is hard for organizations to create a team atmosphere of stewardship, responsible spending, and care for the mission, without everyone understanding their role in managing the money.

Even if each person is not involved in day to day money management, understanding basic nonprofit finance helps us step up to stronger leadership.

Then we can better help the organization bring to life the values of **fairness, equity, accountability, sustainability** and **transparency** in daily operations.

Online Resources

Looking to learn more?

- ❑ Excel free tutorial – Microsoft Excel is a software program that makes budgeting and math easy.
<http://people.usd.edu/~bwjames/tut/excel/> or
<http://www.baycongroup.com/e10.htm>
- ❑ Board Cafe – free online resource for board members and good articles on finance
<http://www.compasspoint.org/boardcafe/index.php>
- ❑ Basic Guide Nonprofit Financial Management (actually more advanced, but gives an overview of bookkeeping, financial controls, and the annual accounting cycle)
http://www.managementhelp.org/finance/np_fnce/np_fnce.htm
- ❑ WSCADV also has nonprofit finance books in our library for members.

Experiential Exercise

- ❑ Now it's time to practice!
- ❑ Click the link below for your assignment. We'll be asking you to report back so remember to keep notes.
- ❑ No worries, no grades.
- ❑ [Click here for the assignment.](#)